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EXDIS FOR AMBASSADOR YOUNG

FOL RPT CAIRO 15952 SENT ACTION SECSTATE DTD 09 SEP 77

QUOTE: S E C R E T CAIRO 15052

EXDIS

EO 11652: GDS

TAGS: PINT, EG, US

SUBJ: ASSESSMENT OF DISCONTENT WITH SADAT'S PERFORMANCE AND
POLICIES

REF (A) 76 CAIRO 11784, (B) STATE 201818, (C) CAIRO 14260,

1. SUMMARY: DISCONTENT WITH SADAT'S LEADERSHIP HAS
REACHED NEW HIGH AND STEMS LARGELY FROM LACK OF DEMONSTRABLE
SUCCESES IN PAST TWO YEARS. THERE HAVE BEEN TOO MANY
EMPTY PROMISES. SADAT IS PLAGUED BY SERIES OF INSOLUBLE
PROBLEMS AS WELL AS SOME OVER WHICH HE HAS LITTLE CONTROL
OR INFLUENCE, SUCH AS WIDESPREAD PERCEPTION ME PEACE PROCESS
HAS STALLED, HIS DESUBSIDIZATION DILEMMA AND RE-EMERGENCE
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OF MILITANT ISLAMIC ORGANIZATIONS. SIMILARLY, MOST OF HIS
FOREIGN AND DOMESTIC POLICIES, SUCH AS RELATIONS WITH
SOVIETS, LIBYA, ECONOMIC "OPEN DOOR," ARE INCREASINGLY
CASTIGATED AS FAILURES. HIS POLITICAL LIBERALIZATION IS
BOOMERANGING ON HIM. HIS LEADERSHIP STYLE IS BEING QUES-
TIONED AND SOME CHARGE THAT HE HAS MADE HIMSELF INCREASINGLY
IRREVELANT IN DOMESTIC POLICY DECISIONS. CORRUPTION

AND CRONYISM REMAIN SOURCES OF PUBLIC DISCONTENT. THOUGH SADAT EXUDES CONFIDENCE IN PRIVATE MEETINGS, THERE ARE SIGNS THAT HE IS WORRIED. CONTINUED PUBLIC, INCLUDING MILITARY, SUPPORT FOR SADAT DEPENDS ON EARLY MEANINGFUL PROGRESS ON THE PEACE FRONT, MORE EFFECTIVE MEASURES TO CHECK STEADY DEGRADATION OF EGYPTIAN DEFENSE CAPABILITY, AND ECONOMIC IMPROVEMENT. BREAKDOWN OF PUBLIC ORDER, RESULTING FROM RENEWED PRICE RIOTS OR ANY OTHER CAUSE, IS POTENTIALLY DANGEROUS THREAT TO SADAT'S POSITION, ESPECIALLY IF IT REACHES POINT WHERE MILITARY INTERVENTION IS REQUIRED. OUR BEST ESTIMATE CONTINUES TO BE THAT SUCH DISCONTENT AS EXISTS IN MILITARY HAS NOT YET REACHED DANGER POINT, BUT ONE CAN CONCEIVE OF SCENARIOS IN WHICH MILITARY MIGHT FEEL IT HAS TO TAKE OVER. FOR MOMENT SADAT'S ABILITY TO CONDUCT PEACE NEGOTIATIONS IS NOT SERIOUSLY DIMINISHED, BUT WE SHOULD NOT TAKE HIM FOR GRANTED. US SHOULD ACT URGENTLY TO SEEK ADDITIONAL MEANS OF STRENGTHENING SADAT'S POSITION THROUGH PRESSING FOR EARLY TANGIBLE PROGRESS ON THE PEACE, MORE EFFECTIVE AID PROGRAM, HIGH LEVEL STATEMENTS OF POLITICAL SUPPORT, MILITARY SALES PROGRAM, AND IMPRESSING UPON ISRAELIS THAT BEST ASSURANCE FOR LONG-TERM SECURITY IS MAJOR US PRESENCE AND INFLUENCE WITH KEY MODERATE ARAB LEADER SUCH AS SADAT. END SUMMARY.

2. LEVEL OF DISCONTENT. IN REF A (SEPT 1976) EMBASSY
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ASSESSED EROSION OF SADAT'S POSITION SINCE OCTOBER WAR. PROCESS HAS CONTINUED AND TODAY LEVEL OF DISCONTENT IN ALL STRATA OF SOCIETY WITH SADAT'S LEADERSHIP HAS REACHED NEW HIGH. THAT ECONOMIC HARDSHIPS, INEFFICIENCY AND CORRUPTION OF BUREAUCRACY, GROWING CLASS DIFFERENCES, DECREPIT STATE OF PUBLIC SERVICES, LACK OF HOUSING, AND ABSENCE INSPIRATIONAL GOVERNMENTAL LEADERSHIP HAVE NOT RESULTED IN MASS REVOLT IS TRIBUTE TO PATIENCE AND RESILIENCY OF AVERAGE EGYPTIAN AND HIS FATALISTIC HOPE THAT SOMEHOW SADAT MAY LEAD EGYPT OUT OF DOWNWARD SPIRAL.

3. YET SADAT HAS HAD NO DEMONSTRABLE SUCCESS FOR OVER TWO YEARS AND HIS POLICIES, FOREIGN AND DOMESTIC, ARE BEING INCREASINGLY QUESTIONED. QUESTIONING COMES NOT ONLY FROM TRADITIONAL ANTI-SADAT ELEMENTS LIKE NASSERISTS, BUT FROM ISLAMIC FUNDAMENTALISTS, MIDDLE CLASS, AND INCREASINGLY FROM MILITARY. ADMITTEDLY, SOME OF CURRENT GRUMBLING COMES FROM TRADITIONAL EGYPTIAN DISTRUST OF GOVERNMENT AND PENCHANT FOR COMPLAINING. FOR FIRST TIME, HOWEVER, SADAT FACING OVERT OPPOSITION FROM LEFT (COMMUNISTS AND NASSERISTS), RIGHT (ISLAMIC EXTREMISTS) AND CENTER (REEMERGENCE OF WAFD). CAUSES OF CURRENT MALAISE AND SADAT'S FALTERING LEADERSHIP FALL ROUGHLY INTO FOUR CATEGORIES: INSOLUBLE PROBLEMS; PROBLEMS OVER WHICH HE HAS LITTLE

CONTROL; PROBLEMS OF POLICY IMPLEMENTATION; AND PERSONAL WEAKNESSES.

4. THE INSOLUBLE PROBLEMS.

A. POPULATION. SINCE SADAT CAME TO POWER IN 1970, POPULATION HAS INCREASED BY APPROXIMATELY SIX MILLION SOULS (TO ALMOST 40 MILLION), IN WHAT IS ALREADY ONE OF THE WORLD'S MOST DENSELY POPULATED COUNTRIES. ITS NATIONAL RESOURCES, IN TERMS OF CULTIVABLE LAND, ARE SHARPLY LIMITED. IT IS IN CONTEXT OF CONSTANTLY INCREASING DEMAND FOR FOOD, SHELTER, AND PUBLIC SERVICES THAT OTHER ECONOMIC PROBLEMS MUST BE VIEWED.

B. INFLATION. WORLD AND DOMESTIC INFLATION CONTINUES TO
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HURT ALL EGYPTIANS. EVEN BEFORE 1977 GREATEST SINGLE CAUSE OF PUBLIC DISCONTENT WAS RISING PRICES. DURING PAST YEAR THESE HAVE INCREASED BETWEEN 10 AND 30 PERCENT, DESPITE HEAVY SUBSIDIZATION OF BASIC ITEMS (SEE BELOW). MIDDLE CLASS, WHICH SUFFERED FROM ASTRONOMICAL INCREASE IN HOUSING COSTS, CONSUMES IMPORTED GOODS, AND EATS MEAT, EGGS AND OTHER SO-CALLED "LUXURY" FOODS, IS HARDEST HIT. EVEN FOR URBAN POOR RATE IS A MINIMUM OF 10 PERCENT (LARGELY IN FOOD) DESPITE SADAT'S OFT REPEATED ASSURANCES THAT POOR WILL NOT SUFFER DURING "AUSTERITY PERIOD". ONLY FOR SMALL MINORITY HAS INCREASE IN COST OF LIVING BEEN MATCHED BY COMMENSURATE INCREASES IN EITHER INCOME OR NEW JOB OPPORTUNITIES.

OUR ACCESS TO MILITARY OFFICERS CONTINUES TO BE SEVERELY LIMITED, BUT SUCH INDICATIONS AS WE HAVE SUGGEST THAT THEIR ATTITUDES ARE NOT RADICALLY DIFFERENT FROM CIVILIAN ATTITUDES. MILITARY OFFICERS ARE FAVORED CLASS AND CUSHIONED FROM WORST EFFECTS OF INFLATION. HOWEVER, THEIR EXTENDED FAMILIES ARE NOT, AND IT IS LOGICAL TO ASSUME THAT ECONOMIC CONDITIONS ARE ADVERSELY AFFECTING MORALE WITHIN THE MILITARY.

C. PUBLIC SERVICES. EVERY URBAN DWELLER SUFFERS FROM DEPLORABLE STATE OF PUBLIC SERVICES, PARTICULARLY PUBLIC TRANSPORT, ELECTRICITY FAILURES, LACK OF ADEQUATE SEWAGE AND DRINKING WATER, AND SUBSTANDARD HOUSING. CAIRO'S OBSOLUTE INFRASTRUCTURE WAS BUILT TO HANDLE POPULATION OF 4 MILLION, BUT POPULATION NOW ESTIMATED AT 8.5 MILLION WITH NO SIGN THAT RURAL FLOW TO URBAN AREAS IS ABATING. WHILE MOST RECENT HUMAN TRAGEDY, COLLAPSING BUILDINGS (TWO WITHIN PAST MONTH), IS NOT A NEW PHENOMENON IN ANCIENT QUARTERS OF CAIRO, IT IS SOMEHOW SYMBOLIC OF STATE OF URBAN DECAY. THESE CONDITIONS STAND IN STARK CONTRAST TO THE HIGH EXPECTATIONS FOR A BETTER LIFE PROMISED THREE YEARS AGO AND KEPT ALIVE BY UNENDING STREAM OF GOVERNMENT PROMISES. THERE IS MUCH TALK ABOUT IMPROVING THESE
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SERVICES, BUT LITTLE HAPPENS. QUALITY OF LIFE, ESPECIALLY IN URBAN AREAS, IS DECLINING.

D. BUREAUCRACY. SADAT CANNOT BE HELD RESPONSIBLE FOR BLOATED, INEFFICIENT AND WIDELY CORRUPT BUREAUCRACY THAT HAS PLAGUED EGYPT FOR CENTURIES, YET HE HAS MADE LITTLE EFFORT TO IMPROVE ITS EFFECTIVENESS. INDEED, THAT BUREAUCRACY SOAKS UP HIS CORRECTIVE INSTRUCTIONS LIKE A SPONGE AND THERE THEY SO OFTEN DIE ABORNING. ON ECONOMIC FRONT, AMBITIOUS FIVE-YEAR PLAN 1976-80 WAS NEVER COMPLETED AND NEW PLAN WILL COVER 1978-82, WITH TWO YEARS IRRETRIEVABLY LOST. SADAT'S TWO TOP PRIORITIES ARE FOOD AND HOUSING, YET NONE OF LARGE AGRIBUSINESS PROJECTS ANNOUNCED HAS GOTTEN OFF GROUND AND IT TOOK PEOPLES ASSEMBLY OVER TWO YEARS TO PASS WATERED-DOWN VERSION OF HOUSING LAW TO PROVIDE LEGAL FRAMEWORK FOR LOW-COST HOUSING PROJECTS AND RENT-CONTROLS. EVEN ONCE HOUSING LAW IS PASSED, NEW CONSTRUCTION WILL AT BEST KEEP UP WITH ANNUAL NEW DEMAND, IT WILL HARDLY MAKE ANY DENT IN ENORMOUS BACKLOG. SADAT, PROBABLY WITH JUSTIFICATION, HAS UNTIL RECENTLY CONSIDERED COSTLY PERSONNEL POLICIES BEGUN UNDER NASSER, SUCH AS GUARANTEED GOVERNMENT JOBS FOR EVERY UNIVERSITY GRADUATE, TOO POLITICALLY EXPLOSIVE TO TAMPER WITH. ECONOMIC MINISTERS, IN CONSIDERING NEW 1978-82 PLAN, HAVE TALKED ABOUT DISCONTINUING THIS SYSTEM. THEIR PUBLISHED VIEWS MAY WELL CONTRIBUTE TO STUDENT UNREST WHEN UNIVERSITIES RECONVENE IN OCTOBER.

5. PROBLEMS WHICH SADAT HAS LITTLE ABILITY TO CONTROL OR INFLUENCE.

A. PROGRESS ON PEACE FRONT. ALTHOUGH GOE HAS TAKEN POSITIVE ATTITUDE TOWARD SECRETARY'S RECENT VISIT, THERE IS WIDESPREAD PUBLIC FEELING THAT IT PRODUCED NO RESULTS AND THAT ME PEACE EFFORT IS STALLED. SADAT'S DOMESTIC CRITICS, ALONG WITH SOVIETS AND EASTERN BLOC, ARE PEDDLING THIS THINKING. SADAT, AND TO SOME EXTENT USG, ARE PARTLY RESPONSIBLE FOR THIS PUBLIC REACTION. SADAT, AFTER HIS VISIT TO WASHINGTON, SPOKE

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TOO CONFIDENTLY AND TOO OFTEN, SUGGESTING THAT HE HAD ASSURANCES THAT FRAMEWORK OF ME SETTLEMENT WOULD BE COMPLETED THIS YEAR AND GENEVA WOULD THEN BE HELD TO FINALIZE DETAILS. THIS NOW SEEMS UNLIKELY AND SADAT'S MORE ARTICULATE CRITICS, SUCH AS HAYKAL, ARE RETURNING TO ATTACK. THEY HAVE LONG ARGUED THAT SADAT'S STRATEGY OF TOTAL DEPENDENCE ON USG WAS CONTRARY TO EGYPT'S INTERESTS BECAUSE IT SACRIFICED BALANCED

RELATIONSHIP WITH USSR, BADLY COMPROMISED EGYPT'S HISTORIC ROLE AS LEADER OF ARAB WORLD, AND DAMAGED COUNTRY'S TRADITIONAL NONALIGNED STATUS. ITS SOLE RESULT WAS TO "FREEZE" SITUATION.

U.S. CONTRIBUTED TO HIGH EGYPTIAN EXPECTATIONS WITH STATEMENTS ON WITHDRAWAL, PALESTINIAN HOMELAND, AND EARLY RE-CONVENING OF GENEVA, AND BY PUBLICLY CRITICIZING ISRAELI POLICY IN OCCUPIED TERRITORIES. UNCERTAINTY THAT U.S. WILL TAKE CONCRETE STEPS TO BACK UP THESE PUBLIC PRONOUNCEMENTS IS GROWING, AS IS FEAR THAT CARTER ADMINISTRATION UNABLE OR UNWILLING TO FACE UP TO ISRAELI AND ZIONIST PRESSURES. THIS APPREHENSION HAS BEEN EXPRESSED TO US BY BOTH CIVILIANS AND HIGH-LEVEL MILITARY OFFICERS. MILITARY WILL OF COURSE BE MOST DIRECTLY AFFECTED BY FAILURE OF PEACE PROCESS AND THEY ARE VITALLY CONCERNED BY GROWING DISPARITY OF EGYPT'S AND ISRAEL'S MILITARY CAPABILITY (SEE BELOW).

PROGRESS ON PEACE FRONT IS ALSO DIRECTLY RELATED TO LEVEL OF TOLERANCE FOR ECONOMIC DIFFICULTIES. AVERAGE EGYPTIAN BELIEVES THAT PEACE WILL BRING NEW ERA IN WHICH DEFENSE EXPENDITURES WILL GO INTO CIVILIAN ECONOMY (AN ESTIMATED 25 PERCENT OF NATIONAL INCOME NOW GOES TO DEFENSE), FOREIGN CAPITAL WILL FLOW IN, AND EGYPT CAN, AT LAST, DEVOTE ITS FULL ENERGIES TO ITS OWN BETTERMENT. THIS PERHAPS UNREALISTIC HOPE IS ALREADY BEING UNDERMINED BY SLOWNESS OF PEACE PROCESS. AS MEMORY OF EXHILARATING OCTOBER 73 WAR RECEDES, A SENSE OF
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RESPONDENCY IS SETTING IN AND QUESTION IS BEING ASKED WHO IS RESPONSIBLE FOR LOSING OPPORTUNITY. MANY EGYPTIANS, INCLUDING MILITARY, ARE BLAMING U.S. AND SADAT. PERCEPTION MAY BE ILLUSORY, BUT IT IS THERE.

B. DILEMMA OF SUBSIDIES. EGYPT HAS HAD REMARKABLE SUCCESS THIS YEAR IN MARSHALING EXTERNAL RESOURCES TO MEET HEAVY FOREIGN DEBT BURDEN. UNDER LEADERSHIP OF DEP PRIME MINISTER QAYSUNI, IT HAS EXTRACTED SUBSTANTIAL BOP LOAN FUNDS FROM SAUDI-LED GULF ORGANIZATION FOR DEVELOPMENT IN EGYPT (GODE) AND, AT RECENTLY ESTABLISHED IBRD CONSULTATIVE GROUP, IT ALLAYED SOME DONOR UNEASE ABOUT DEVELOPMENT PLANS. EARLIER THIS YEAR EGYPT SUCCESSFULLY CONCLUDED PROTRACTED NEGOTIATIONS WITH IMF ON STAND-BY CREDIT, THUS GAINING A MARK OF INTERNATIONAL FINANCIAL RESPECTABILITY. THESE SUCCESSES ARE, HOWEVER, CONTINGENT ON IMPLEMENTING SOME TOUGH, LONG OVERDUE MEASURES TO RATIONALIZE EGYPT'S ECONOMY, CHIEF OF WHICH IS REMOVAL OF WIDE RANGE OF DIRECT AND INDIRECT SUBSIDIES ON BASIC COMMODITIES (NOW COSTING OVER LE ONE BILLION ANNUALLY). A MISMANAGED ATTEMPT TO DO SO IN JANUARY WAS IMMEDIATE CAUSE OF RIOTS.

IN JULY GOE EMBARKED ON NEW STRATEGY TO ATTEMPT GRADUALLY TO REMOVE SUBSIDIES WITH MINIMAL POLITICAL REACTION AND THROUGH A CAMPAIGN OF PUBLIC EDUCATION. PREDICTABLY, PROPOSED POLICY IS DECIDEDLY UNPOPULAR DESPITE MEDIA CAMPAIGN EMPHASIZING THAT PRICE RISES WILL BE ACCOMPANIED BY RIGID PRICE CONTROLS AND SOME WAGE INCREASES. MEMORY OF JANUARY PRICE RIOTS STRONG AND POSSIBILITY OF RENEWED RIOTS CANNOT BE EXCLUDED. THERE ARE ALSO QUESTIONS ABOUT LOYALTY LARGE ELEMENTS OF INTERNAL SECURITY FORCES AND EVEN OF MILITARY SHOULD PRICE RISES PROVOKE NEW WAVE OF RIOTING. ENFORCEMENT OF CONCURRENT PRICE CONTROLS ON OTHER GOODS, WHICH COULD CUSHION PUBLIC REACTION, WOULD REQUIRE VIGILANCE OF DEDICATED AND INCORRUPTIBLE BUREAUCRACY WHICH DOESN'T EXIST. LIKE MUCH VAUNTED "ADMINISTRATIVE REVOLUTION" OF FEW MONTHS AGO, PRICE
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ENFORCEMENT MEASURES WILL MOST LIKELY FADE AWAY. AT BEST, GOVERNMENT MAY SUCCEED IN REMOVING SUBSIDIES WITHOUT AN IMMEDIATE, VIOLENT PUBLIC REACTION, BUT IMPACT ON PRICES WILL INEVITABLY INCREASE PUBLIC DISSATISFACTION TO DANGEROUS LEVEL. FURTHER CIVIL DISORDERS OVER ECONOMIC GRIEVANCES ARE LIKELY IN COMING MONTHS. SADAT'S DILEMMA ON DESUBSIDIZATION IS THAT HE'S DAMNED IF HE DOES AND DAMNED IF HE DOESN'T.

C. RE-EMERGENCE OF MILITANT ISLAMIC ORGANIZATIONS. BEHIND ITS TRAPPINGS OF QUASI-MODERNITY, EGYPT REMAINS A FUNDAMENTALIST MUSLIM SOCIETY. "IKHWAN" MOVEMENT OF FORTIES AND FIFTIES IS TODAY NO MORE THAN AN INCHOATE FORCE. ITS LEADERSHIP WAS EFFECTIVELY ELIMINATED BY NASSER THROUGH EXECUTIONS AND IMPRISONMENT. YET ITS RANK AND FILE PERSIST, AS DO ATTITUDES AND VALUES THAT IT REPRESENTED, AND THEY WILL CONTINUE REGARDLESS OF WHO RULES EGYPT AND HOW. THERE IS, MOREOVER, A REVIVAL OF ORTHODOX ISLAM AMONG YOUNGER GENERATION, AS EVIDENCED IN DRESS OF YOUNG LADIES AND TONSORIAL STYLES OF YOUNG MEN. MORE SIGNIFICANTLY, YOUNG ISLAM IS BECOMING INCREASINGLY MILITANT. ISLAMIC LIBERATION PARTY, TAKFIR WA HIGRA, SOLDIERS OF GOD AND HOLY WAR SOCIETY ARE ALL MANIFESTATIONS OF YOUNG MUSLIM EXTREMISM. THOUGH SMALL IN NUMBERS, THESE ORGANIZATIONS REFLECT AN ISLAMIC PROTEST AGAINST WESTERNIZATION AND WHAT THEY PERCEIVE TO BE DISINTEGRATION OF MUSLIM SOCIETY. WHILE NOT LIMITED TO EGYPT, PROTEST MOVEMENT IS PARTICULARLY STRONG HERE.

SADAT, A DEVOUT MUSLIM, HAS ASSIDUOUSLY WORKED TO DEVELOP GOOD RELATIONSHIP WITH REMNANTS OF "IKHWAN", AND HAS HAD SOME SUCCESS. BUT YOUTHFUL, MILITANT ISLAMIC MOVEMENTS VIEW HIM AS GODLESS MODERNIST. IN FACT, DESPITE THEIR CALLOUS MURDER OF DHAHABI, THE TAKFIR DETAINEES ARE BEGINNING TO ELICIT A MEASURE OF PUBLIC SYMPATHY AS A PROTEST MOVEMENT AGAINST UNSATISFACTORY SOCIAL SITUATION. POLICE ACTION MAY CONTAIN THESE ORGANIZA-
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TIONS, BUT IT WILL NOT ELIMINATE THEM. THEY, AND OTHERS LIKE THEM, WILL PERSIST AND REFUSE TO BE COWED. LEADERSHIP VACUUM ENCOURAGES THEM. SO DOES LIBYAN AND SAUDI MONEY, KNOWINGLY OR UNKNOWNLY. BUT THEY ARE NOT FOREIGN AGENTS; RATHER, THEY ARE FANATIC ZEALOTS PREPARED TO KILL FOR CAUSE THEY DEEM RIGHT. A PROMINENT OPPOSITION PEOPLES ASSEMBLY MEMBER HAS TOLD US HE EXPECTS A WAVE OF POLITICAL ASSASSINATIONS BEFORE LONG. HE MAY WELL BE RIGHT. QADHAFI WILL CERTAINLY BE EXPECTED ENCOURAGE THEM. TO EXTENT SUCH ACTS REVEAL GOE'S INABILITY TO MAINTAIN PUBLIC ORDER, THEY WILL FURTHER UNDERMINE SADAT'S POSITION.

6. FOREIGN AND DOMESTIC POLICY FAILINGS.

A. FOREIGN POLICY. IN ADDITION TO STALLED ME PEACE PROCESS, SOME OF SADAT'S OTHER KEY FOREIGN POLICIES ARE OBJECT OF GROWING CRITICISM:

(1) SOVIET UNION. OVERRELIANCE ON U.S. AT EXPENSE OF RELATIONS WITH USSR IS COMPLAINT AMONG SOME OF SADAT'S CLOSEST ADVISORS. MOST SERIOUS CONSEQUENCE OF THIS POLICY IS PROBABLY ITS ADVERSE IMPACT ON MILITARY ARMS SUPPLY. GOE LEADERS HAVE EMPHASIZED TO US PRIMORDIAL IMPORTANCE TO EGYPT'S STABILITY OF KEEPING MILITARY IN SUPPORTIVE ROLE, PRIMARILY THROUGH SUPPLY OF ARMS. GOE APPRECIATIVE OF U.S. DECISION TO PROVIDE FOURTEEN MORE C-130'S AND OTHER EQUIPMENT, BUT IT WAS NOT ENOUGH TO HAVE IMPACT ON MILITARY. DIVERSIFICATION PROGRAM HAS ALSO PRODUCED MINIMAL RESULTS TO DATE DUE TO MANUFACTURING AND FINANCING CONSTRAINTS. SADAT'S PUBLIC ATTACKS ON SOVIETS FOR FAILING TO MEET ARMS COMMITMENTS MAY BE ATTEMPT TO CONVINCE MILITARY THAT ARMS SHORTAGES ARE NOT HIS FAULT. WE HAVE HEARD INDIRECTLY THAT MILITARY OFFICERS ARE ASKING WHEYE NEW SAUDI-FINANCED ARMS ARE (SADAT HAS ON TWO OCCASIONS STATED SAUDIS HAVE AGREED FINANCE MILITARY PURCHASES FOR NEXT THREE YEARS). UNLESS MAJOR ARMS PROCUREMENT TAKES PLACE SOON, MILITARY DISCONTENT WITH SADAT FOR BREAKING ARMS RELATIONSHIP WITH USSR CAN ONLY

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INCREASE ON PRAGMATIC RATHER THAN IDEOLOGICAL GROUNDS.

(2) LIBYA. CONFLICT WITH LIBYA HAS NOT BEEN POPULAR WITH CIVILIANS (ARAB FIGHTING ARAB) AND THERE HAVE BEEN REPORTS OF SOME MILITARY DISSATISFACTION AS WELL. THERE IS INCREASING TENDENCY TO VIEW CONFLICT AS SADAT'S PERSONAL VENDETTA TO ENHANCE HIS PRESTIGE AND AS AN UNTIMELY DIVERSION OF EFFORT AT A

TIME WHEN THE ME PEACE EFFORT IS STALLED. FINALLY, DUTY IN WESTERN DESERT HARDLY APPEALING, ALTHOUGH WE UNDERSTAND MILITARY HAS AS RESULT OF CONFLICT RECEIVED SOME FORM OF COMBAT PAY. BARRING NEW FIGHTING ON LARGER SCALE, OUR ASSESSMENT IS, HOWEVER, THAT ALMOST UNIVERSALLY LOW EGYPTIAN OPINION OF QADHAFI HAS PREVENTED LIBYAN CONFLICT FROM BECOMING MAJOR SOURCE OF MILITARY DISCONTENT. IF, HOWEVER, SERIOUS FIGHTING TAKES PLACE IN FUTURE WITHOUT DECISIVE AND QUICK EGYPTIAN VICTORY, IT WOULD UNDERMINE SADAT'S STANDING WITH MILITARY.

(3) SUPPORT FOR AFRICAN REGIMES. SADAT'S DECISION TO ASSIST ZAIRE WAS TAKEN AGAINST ADVICE OF BOTH HIS MILITARY AND CIVILIAN ADVISORS. IT WAS MERCIFULLY SHORT. MILITARY ASSISTANCE TO SUDAN, CHAD AND SOMALIA IS SOMEWHAT MORE ACCEPTABLE SINCE THEY ARE CLOSER TO HOME AND ARMED FORCES TAKE PRIDE IN FULFILLING ROLE OF REGIONAL "GREAT POWER." IF, HOWEVER, EGYPTIAN INVOLVEMENT SHOULD BECOME PROLONGED OR A DRAIN ON ITS MILITARY STOCKS, IT TOO COULD UNDERMINE MILITARY SUPPORT FOR SADAT. WE DOUBT IF MILITARY COMPLETELY BUYS SADAT'S ASSERTION THAT SOVIETS ARE BEHIND ALL OF THESE AFRICAN UPHEAVALS. HIS CREDIBILITY IS JUST NOT THAT HIGH.

(4) ARAB POLICY. SADAT AND FAHMY ARE BOTH CRITICIZED FOR LACK OF CLOSE CONSULTATIONS WITH OTHER CONFRONTATION STATES, FOR "DISASTROUS" LEBANESE POLICY AND FOR FAILING OBTAIN FULL BACKING OF SMALL, WEALTHY ARAB STATES (WHOM FAHMY OPENLY DIS-
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DAINS). THESE CRITICISMS ARE, HOWEVER, LIMITED TO FOREIGN POLICY AND INTELLECTUAL ELITE.

B. ECONOMIC "OPEN DOOR" POLICY. MAJOR CRITICISM OF "INFITAH" IS THAT IT HASN'T ATTRACTED SIGNIFICANT AMOUNTS OF FOREIGN OR DOMESTIC CAPITAL INTO PRODUCTIVE ENTERPRISES. POLITICALLY, IT IS SEEN AS HAVING (1) BENEFITTED SMALL MINORITY OF "FAT CATS" ENGAGED IN REAL ESTATE AND IMPORT TRADE; (2) WASTED SCARCE FOREIGN EXCHANGE ON IMPORTS OF LUXURY AND SEMI-LUXURY CONSUMER GOODS; AND (3) VASTLY INCREASED OPPORTUNITIES FOR CORRUPTION (SEE BELOW). OPEN DOOR POLICY HAS COME TO BE EQUATED WITH CONSPICUOUS CONSUMERISM. MOREOVER, INVITATION TO FOREIGN PRIVATE CAPITAL INVESTMENT HAS RAISED SPECTOR WITH MANY EGYPTIANS OF FOREIGN "EXPLOITATION".

C. POLITICAL LIBERALIZATION. UNTIL JANUARY RIOTS, SADAT'S EXPERIMENT IN POLITICAL LIBERALIZATION WAS ONE OF HIS MAJOR SUCCESSES. POLICE STATE APPARATUS HAD BEEN DISMANTLED AND QUASI-POLITICAL PARTIES WERE ABOUT TO START FUNCTIONING. SOMEWHAT NAIVELY PERHAPS, HE HOPED THEREBY TO GARNER BROAD-BASED PUBLIC SUPPORT. INSTEAD HE OPENED A PANDORA'S BOX OF CRITICS AND DISSENTERS. IN ANY CASE, SADAT RESPONDED TO RIOTS LIKE

A POLICEMAN. THEIR SPONTANEITY WAS DISCOUNTED AND "LEFTIST CONSPIRATORS" BLAMED. LEFTIST WRITERS WERE MUZZLED. SECURITY DECREE PASSED BY REFERENDUM, NEW POLITICAL PARTY LAW AND ANTICIPATED PRESS LAW ARE ALL MORE RESTRICTIVE THAN ORIGINALLY PLANNED AND PROVIDE SEVERE SANCTIONS FOR DISSENTERS.

SADAT'S ATTACKS ON THE WAFD, AFTER INITIALLY ENCOURAGING ITS RETURN IN SOME FORM, HAS PERPLEXED EVEN HIS CONFIDANTS. NEVERTHELESS, THOUGH THERE HAS BEEN SOME RETROGRESSION IN POLITICAL LIBERALIZATION, THERE HAS BEEN NO RETURN TO POLICE STATE METHODS. EVEN ACCUSED IN RECENT TAKFIR MURDER CASE WERE GIVEN OPPORTUNITY IN OPEN, ALBEIT MILITARY, COURT TO AIR ACCUSATIONS OF POLICE TORTURE. SADAT MUST BE BITTER OVER FACT THAT, BY CREATING RELATIVELY FREE ENVIRONMENT THAT STILL EXISTS, HE
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HAS MADE IT POSSIBLE FOR HIS OPPONENTS NOT ONLY TO OPENLY CRITICIZE, BUT ACTIVELY ORGANIZE AGAINST HIM. GIVEN HIS MULTITUDE OF OTHER PROBLEMS, IT IS DIFFICULT TO SEE HOW HE CAN PERMIT THIS TO CONTINUE.

7. SADAT'S PERSONAL WEAKNESS. THE CONFIDENT, BOUYANT MANNER OF SADAT OF TWO YEARS AGO HAS IN PUBLIC APPEARANCES BECOME INCREASINGLY DEFENSIVE AND ERRATIC. HE HAS STRONGLY DEFENDED HIMSELF AGAINST ALL CRITICS AND DISCUSSED VIRTUALLY ALL PUBLIC ISSUES, THEREBY TAKING UPON HIMSELF RESPONSIBILITY FOR EVERYTHING. IN FACT, FAILINGS ARE OFTEN THOSE OF PRIME MINISTERS. THERE IS CONCERN THAT APPARENTLY ARBITRARY WAY IN WHICH IMPORTANT DECISIONS ARE BEING MADE, MOST RECENTLY DECISION TO CEASE COTTON EXPORTS TO USSR AND CZECHOSLOVAKIA WITHOUT ANY STUDY OF POTENTIAL ECONOMIC CONSEQUENCES.

A. ISOLATION. MOST DAMAGING ACCUSATION IS THAT SADAT HAS SURROUNDED HIMSELF WITH SYCOPHANTS AND THOSE INTERESTED ONLY IN PERSONAL ENRICHMENT. FORMER MIN RECONSTRUCTION OSMAN AHMAD OSMAN IS NOW CONSIDERED HIS CLOSEST CONFIDANT. EVEN POLITICALLY ASTUTE SAYYID MAR'S ADVICE IS SAID TO BE LESS SOUGHT AFTER. SADAT HAS LITTLE CONTACT WITH EGYPT'S INTELLECTUAL ELITE. HIS WIFE, JIHAN, WHILE RARELY IN PUBLIC EYE SINCE JANUARY RIOTS, IS SAID TO BE AS POLITICALLY AND FINANCIALLY ACTIVE AS EVER. THIS ISOLATION, WHICH MAY HAVE BEGUN SHORTLY AFTER MARCH 1975 IN WAKE OF CRITICISM OVER FAILURE OF ASWAN TALKS, IS IN MARKED CONTRAST TO EARLIER YEARS OF SADAT'S PRESIDENCY WHEN HE CONSULTED WITH AND LISTENED TO THE LIKES OF HAYKAL. ONE INSIDER HAS COMPARED SADAT'S CURRENT ISOLATION TO NIXON'S DURING WATERGATE.

B. LACK OF DIRECTION AND FOLLOW-UP. GOVERNMENT DECISIONS SEEM SOMETIMES TO BE SOLELY REACTIVE AND TO BE MADE
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WITHOUT EITHER ADEQUATE PREPARATION OR WITHIN OVERALL STRATEGY. EVEN IF THEY ARE GOOD DECISIONS, THERE MAY BE NO FOLLOW-UP. SADAT, AS WELL AS OTHER SENIOR EGYPTIAN LEADERS, TEND TO EQUATE THE WORD WITH THE DEED. ONCE WORD IS GIVEN OR PUBLICLY ANNOUNCED, THEY SEEM TO ASSUME THEIR RESPONSIBILITY ENDS.

THERE IS NO ADEQUATE ORGANIZATIONAL STRUCTURE TO SEE THAT INSTRUCTIONS ARE EXECUTED IN TIMELY AND EFFECTIVE MANNER. AS RESULT, PRESIDENTIAL AND MINISTERIAL PUBLIC "PROMISES" HAVE COME TO BE REGARDED AS EMPTY TALK.

SADAT HAS IN EFFECT ABDICATED DAY-TO-DAY LEADERSHIP (ONE SYMPATHETIC SADAT SUPPORTER DESCRIBED EGYPT'S LEADERSHIP TODAY AS AN "EMPTY STAGE") AND HAS MADE HIMSELF INCREASINGLY IRRELEVANT IN DOMESTIC POLICY DECISIONS. INSTEAD, HIS MINISTERS FIGHT TO ENHANCE THEIR OWN POSITIONS. SOME PERFORM WELL, LIKE QAYSUNI, MINPET HILAL AND MINTRADE AND SUPPLY ZAKARIYA TAWFIQ. OTHERS ONLY SEEK TO PLEASE OR TURN THEIR MINISTRIES INTO PERSONAL FEIFDOMS. THE END RESULT UNDER THE UNWATCHFUL EYES OF PRIMIN SALIM AND VP MUBARAK, IS WOEFUL LACK OF INTERMINISTERIAL COORDINATION. RISE OF EXTREMIST ISLAMIC GROUPS, WAFD DEFIANCE OF SADAT, MUSLIM-COPTIC TROUBLES AND SHAYKH OF AL AZHAR'S RECENT CONDEMNATION OF BIRTH CONTROL ARE ALL EXAMPLES OF INDIVIDUAL GROUPS MOVING INTO THIS VACUUM TO PROTECT WHAT THEY CONSIDER THEIR VITAL INTERESTS.

C. CORRUPTION AND CRONYISM. WHILE EGYPTIAN TOLERANCE OF CORRUPTION IS FAR HIGHER THAN WESTERN SOCIETIES, IT CANNOT THRIVE INDEFINITELY IN ENVIRONMENT OF ECONOMIC DEPRESSION FOR VAST MAJORITY AND DAILY REMINDERS OF CONSPICUOUS CONSUMPTION BY THE FEW. SADAT IS MOST FREQUENTLY CRITICIZED FOR PERMITTING THOSE CLOSEST TO HIM, PRINCIPALLY HIS WIFE JIHAN, OSMAN AHMED OSMAN, AND CHAIRMAN OF ARAB INDUSTRIAL ORGANIZATION ASHRAF MARWAN, TO BENEFIT FROM THEIR POSITIONS FOR PERSONAL ENRICHMENT. FIRST FAMILY'S OPULENT LIFE STYLE MAY CREATE RESENTMENT, BUT MORE IMPORTANTLY IT CREATES DESIRE FOR EMU-
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LATION AND PERSONAL ENRICHMENT.

GOVERNMENT FAILURE TO PROSECUTE INDIVIDUALS WHO HAVE BEEN PUBLICLY ACCUSED OF CORRUPTION AND EVEN DISMISSED FROM THEIR POSITIONS IS REGARDED AS A COVER-UP OF HIGHER AUTHORITIES "ON THE TAKE." THE RESULT HAS BEEN THE CREATION OF AN ENVIRONMENT IN WHICH CORRUPTION FLOURISHES AND EVERYONE LOOKS THE

OTHER WAY. FINALLY, DESPITE ENDEMIC SHORTAGES OF BUILDING MATERIALS AND CONSTRUCTION DELAYS, OWNERS OF NIGHT CLUBS ON "THE STRIP" ALONG PYRAMIDS ROAD, WHICH WERE SACKED DURING JANUARY RIOTS, SOMEHOW FOUND IN RECORD TIME WHEREWITHAL TO REBUILD THEIR ESTABLISHMENTS. OBVIOUS DISPARITIES IN WEALTH AND OSTENTATIOUS SPENDING BY RICH EGYPTIANS AND GULF ARABS HAVE ALMOST CERTAINLY CONTRIBUTED TO GREATER CLASS CONSCIOUSNESS, BITERNESS AND FEAR.

IS SADAT AWARE OF HIS ERODING POPULARITY? SADAT STILL EXUDES CONFIDENCE IN PRIVATE MEETINGS, BUT THERE ARE SIGNS HE IS WORRIED THAT THINGS ARE NOT GOING WELL. ADMITTEDLY, HE HAS NO VIABLE OPTION AT PRESENT OTHER THAN HOPE--HOPE THAT THE U.S. WILL SOMEHOW BE ABLE TO PRODUCE MEANINGFUL MOVEMENT IN LONG-STALLED PEACE PROCESS--IN ORDER TO GIVE HIM SOME BREATHING SPACE TO HANDLE HIS HORRENDOUS ECONOMIC PROBLEMS. SADAT MAY BE NAIVE IN HIS FAITH IN OTHERS, BUT HE IS NO FOOL. HE IS A CONSUMMATE POLITICIAN WELL VERSED IN INTRICACIES OF POLITICAL IN-FIGHTING. HIS WORRY SEEMS PROMPTED BY REALIZATION OF HIS INCREASING VULNERABILITY TO PUBLIC CRITICISM AND POTENTIAL DANGERS THIS COULD POSE TO HIS STAYING POWER. HE HAS THIS MONTH TAKEN UNUSUAL STEP OF GOING ON MONTH'S "LEAVE", OSTENSIBLY TO MEDITATE, ALTHOUGH HE REMAINS IN COUNTRY AND ACTIVE. SADAT IS FATIGUED, BUT HIS ACTION IS BEING WIDELY VIEWED AS EVIDENCE OF HIS GROWING CONCERN. SOME OF OTHER RECENT ACTIONS CAN ALSO BE READ IN THIS LIGHT.

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THUS, SADAT HAS HAD COMPULSION IN PAST TWO YEARS TO MAKE PUBLIC SPEECHES TO ALL AND SUNDRY. THEY USUALLY DETAILED AT GREAT LENGTH HISTORY OF REVOLUTION, HIS OWN CORRECTIVE REVOLUTION, AND OCTOBER CROSSING AND EXHORTED HIS HEARERS TO BE PATIENT WHILE COUNTRY'S PROBLEMS BEING RESOLVED. HIS REPETITION OF THESE THEMES APPEARS BE DEFENSIVE MECHANISM DICTATED BY CONVICTION THAT HE NEEDS EXPLICATE HIS OBJECTIVES IN ORDER TO ABATE GROWING SKEPTICISM. HIS CONTINUED PUBLIC ATTACKS ON SOVIETS, WHICH HAMSTRING EFFORTS OF SOME OF HIS CLOSEST COLLEAGUES TO EFFECT SOME KIND OF DETENTE, ALSO FLOW IN PART FROM CONVICTION THAT HE DOES NOT DARE ALLOW EGYPTIAN/SOVIET RELATIONS TO IMPROVE APPRECIABLY LEST ANY SUCH DEVELOPMENT TRANSLATE INTO A DIRECT THREAT TO HIS POSITION. HE IS PERSUADED, AND PERHAPS RIGHTLY SO, THAT SOVIETS HAVE COME TO REGARD HIM AS AN IRREVOCABLE OPPONENT WHO MUST SOONER OR LATER BE REMOVED IN ANY WAY POSSIBLE.

SADAT HAS CONVENIENTLY ATTRIBUTED ALL BLAME FOR JANUARY RIOTS TO "COMMUNISTS" AND THERE IS A DANGER THAT HE HAS COME TO BELIEVE THIS HIMSELF. CERTAINLY SOME OF HIS SECURITY ADVISERS, INCLUDING PRIME MINISTER, HAVE FOUND IT CONVENIENT TO

PLAY UPON HIS ANTI-SOVIET PHOBIA BY BLAMING "COMMUNISTS" IN AN EFFORT TO EXCUSE THEIR OWN INADEQUACIES. DESPITE HIS ISOLATION, SADAT CANNOT HELP BUT HAVE BEEN MADE AWARE OF THE STARK REALITIES OF EGYPT'S ECONOMIC SITUATION AND CONSIDERABLE ELEMENT OF PUBLIC DISSATISFACTION WITH HIS ECONOMIC POLICIES. VARIOUS RETROGRESSIVE MEASURES FROM HIS AVOWED POLICY OF POLITICAL LIBERALISM ATTEST TO THIS AND TO HIS DETERMINATION TO CONTAIN UNREST.

9. CONCLUSION. SADAT WILL BE SUBJECTED TO CONTINUING BITTER COMPLAINTS ABOUT ECONOMIC AND SOCIAL INEQUITIES, BUT AT BEST IMPROVEMENT IN THIS AREA WILL BE SLOW. HE NEEDS SOME SHORT-TERM SUCCESSES TO CONTAIN PUBLIC DISSATISFACTION AND GAIN TIME. HIS OPTIONS ARE VERY LIMITED AND BARRING SOME SIGNIFI-
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CANT PROGRESS ON ME PEACE FRONT IN NEXT SIX TO EIGHT MONTHS, HIS PROSPECTS ARE NOT BRIGHT. HIS LEADERSHIP WILL BE INCREASINGLY OPENLY CHALLENGED AND HIS SURVIVABILITY WILL BE AT STAKE AS WILL POLICY OF MODERATION WHICH HE HAS ESPOUSED. HOW EGYPTIAN BODY POLITIC WILL REACT TO FURTHER DETERIORATION OF INTERNAL SITUATION WILL DEPEND LARGELY ON ARMY. SOME PROFESS TO SEE GAMASY AS ONLY VIABLE SUCCESSOR WHO CAN HOPE TO LEAD EGYPT IN ITS PRESENT PERIOD OF TRAVAIL. FROM LIMITED INDICATIONS WE HAVE, GAMASY AND OTHER SENIOR OFFICERS, THOUGH NOT ALWAYS ENAMORED OF PRESIDENT'S POLICIES, REMAIN LOYAL. HOWEVER, GAMASY IS HIMSELF NOT OVERLY POPULAR IN THE ARMED FORCES AND THERE IS ALWAYS THE SPECTRE OF THE "UNKNOWN COLONELS".

CONTINUED PUBLIC, INCLUDING MILITARY SUPPORT FOR SADAT WILL DEPEND ON THREE CRITICAL ELEMENTS: EARLY MEANINGFUL PROGRESS ON ME PEACE FRONT, MORE EFFECTIVE MEASURES TO CHECK STEADY DEGRADATION OF EGYPTIAN DEFENSE CAPABILITY, AND ECONOMIC IMPROVEMENT. UNLESS THERE IS REAL PROGRESS ON ME PEACE FRONT AND A WAY IS FOUND TO OBTAIN NEEDED NEW WEAPONS SYSTEMS AND SPARE PARTS, SADAT COULD LOSE MILITARY SUPPORT AND BE IN SERIOUS TROUBLE. ON ECONOMIC FRONT, IF AND WHEN PRICES ARE RAISED, POSSIBILITY OF RENEWED RIOTS IS REAL. BREAKDOWN OF PUBLIC ORDER, SHOULD IT RECUR, IS ONE OF THE MOST DANGEROUS THREATS TO SADAT'S POSITION, ESPECIALLY IF IT REACHES POINT WHERE MILITARY INTERVENTION IS REQUIRED.

SADAT CANNOT COUNT ON DEMONSTRATORS READILY DISPERSING WHEN FACED BY MILITARY, AS THEY DID IN JANUARY RIOTS. HE MUST ASSUME THAT LESSONS OF THOSE RIOTS HAVE BEEN LEARNED BY INSTIGATORS TO DEVISE NEW, MORE EFFECTIVE TACTICS FOR NEXT ROUND. UNANSWERED QUESTION IS WHETHER MILITARY, IF FACED WITH DETERMINED DEMONSTRATORS, WOULD BE WILLING TO SHOOT. OR WOULD MILITARY LEADERSHIP CONCLUDE SITUATION HAD REACHED POINT
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WHERE MILITARY MUST TAKE OVER TO SAVE COUNTRY. EGYPTIAN MILITARY IS MOST DISCIPLINED INSTITUTION IN EGYPT AND HAS AN ENVIABLE RECORD CARRYING OUT ORDERS. DESPITE VICISSITUDES OF YEMENI WAR AND 1967 ARAB/ISRAELI WAR, THERE HAS NOT BEEN A SERIOUS MILITARY COUP ATTEMPT OR ACT OF DISOBEDIENCE SINCE 1952. BUT THIS DOES NOT RULE OUT POSSIBILITY THAT, IN CERTAIN CIRCUMSTANCES, IT COULD HAPPEN.

OUR BEST ASSESSMENT TO DATE IS THAT DISCONTENT WITHIN MILITARY, WHILE THERE, HAS NOT YET REACHED DANGER POINT, ALTHOUGH WE HAVE REPORT FROM YUGOSLAVS THAT GROUP OF UNIDENTIFIED OFFICERS IS ALLEGEDLY DISCUSSING REMOVAL OF SADAT BY NEXT SPRING IF THERE IS NO PROGRESS ON ME PEACE FRONT. WE CANNOT VOUCH FOR VALIDITY OF THIS REPORT, BUT IT IS REFLECTIVE OF COMMENTS INCREASINGLY BEING HEARD THAT THERE MUST BE SOME MAJOR GOVERNMENTAL SHAKE-UP FROM TOP TO BOTTOM IF THE COUNTRY'S PROBLEMS ARE TO BE EFFECTIVELY TACKLED.

ONE SCENARIO IN WHICH ARMY OR PORTION OF MILITARY MIGHT FEEL COMPELLED TO STEP IN WOULD INVOLVE ONLY LIMITED RIOTS, BUT POLITICAL ASSASSINATIONS, WIDESPREAD MUSLIM-CHRISTIAN CONFLICT, DEFIANCE BY WAFD AND OTHER POLITICIANS, I.E. GENERAL STATE OF ANARCHY IN WHICH SADAT LOSES ALL PRETENSE OF GOVERNING. ARMY COULD CONCEIVABLY TAKE REINS OF POWER WITH OR WITHOUT LEAVING SADAT AS PRESIDENT. SECOND POSSIBILITY IS THAT UNDER SUCH CIRCUMSTANCES, SADAT HIMSELF WOULD CALL ON MILITARY TO TAKE OVER KEY POSITIONS IN WHICH CASE HE COULD STAY ON AS FIGUREHEAD.

10. IMPACT ON PEACE PROCESS: FOR THE MOMENT WE DO NOT BELIEVE ABOVE DISQUIETING FACTORS APPRECIABLY CONSTRAIN SADAT'S FREEDOM OF ACTION IN MOVING FORWARD ON PEACE PROCESS. IF ANYTHING, THEY INCREASE HIS DESIRE FOR FASTER MOVEMENT. HOWEVER, PEACE PROCESS MUST BEFORE LONG SHOW SOME TANGIBLE RESULTS IF SADAT'S CREDIBILITY WITH ALL CLASSES AND IN ARAB WORLD IS TO BE REESTABLISHED.

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11. IMPACT ON NEGOTIATIONS. WHILE IT SEEMS PREMATURE TO CONSIDER HOW SADAT'S FREEDOM OF ACTION IN ACTUAL PEACE NEGOTIATIONS MAY OR MAY NOT BE DIMINISHED BY INTERNAL SITUATION, WE HAVE A FEW GENERAL THOUGHTS. SOME OF EGYPT'S MOST THOUGHTFUL INTELLECTUALS FEAR THAT SADAT, AS RESULT OF INTERNAL CONDITIONS, IS SO DESPERATE FOR A

SETTLEMENT THAT HE MIGHT WANT CONCLUDE A SEPARATE PEACE AGREEMENT. THIS, THEY BELIEVE, EVEN IF CLOAKED IN SOMETHING SHORT OF A FULL PEACE WOULD BE DISASTROUS FOR SADAT AND FOR U.S. IT WOULD NOT BE DURABLE, WOULD DIVIDE THE ARABS AND IN TIME LEAD TO GREATER INSECURITY FOR ISRAEL AND ALL MODERATE ARAB REGIMES. MORE IMPORTANTLY, OPPORTUNITY THAT THEY BELIEVE EXISTS NOW FOR CONCLUDING FINAL SETTLEMENT WOULD BE IRRETRIEVABLY LOST. THUS, THEY ARGUE, EVEN IF SADAT IS DESPERATE ENOUGH TO SEEK A SEPARATE PEACE, THE U.S. SHOULD RESTRAIN HIM.

SHORT OF THE EXTREME SITUATION OF A SEPARATE PEACE AGREEMENT, WHICH WE DOUBT SADAT WILL SEEK UNLESS SYRIANS AND PALESTINIANS APPEAR BE STYMING PEACE PROCESS OR WITHOUT STRONG US URGING, WE BELIEVE CURRENT INTERNAL CONDITIONS (A) INCREASE URGENCY WITH WHICH SADAT WILL SEEK TO CONCLUDE A SETTLEMENT; AND (B) INFLUENCE TYPE OF CONCESSIONS HE LIKELY TO MAKE. CONSTITUENCY TO WHICH HE WILL BE MOST RESPONSIVE IS MILITARY AND HE IS UNLIKELY TO MAKE ANY MAJOR CONCESSION THAT WILL DISPLEASE THEM. THUS REGAINING ALL OF SINAI, ISSUES OF ARMS LIMITATION AND BALANCE, DMZ'S, OBSERVER STATIONS AND OTHER "SECURITY ARRANGEMENTS" WILL BE OF PRIMARY IMPORTANCE. IF SADAT IS ABLE TO GET SOME KING OF SATISFACTION ON THESE ISSUES, WE BELIEVE HIS ROOM FOR MANEUVER ON NATURE OF PEACE, WEST BANK, PALESTINIANS AND JERUSALEM WILL BE BROADER AND THAT HE WILL NOT HESITATE TO USE EGYPT'S INFLUENCE TO TRY TO PERSUADE OTHER PARTIES TO REACH SETTLEMENT AS RAPIDLY AS POSSIBLE.

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12. SIGNIFICANCE FOR U.S. INTERESTS. THERE CAN BE NO DOUBT THAT ON EOF OUR PRINCIPAL ASSETS IN SEARCH FOR ME SETTLEMENT IS IN SERIOUS DANGER OF HAVING HIS INTERNAL POSITION UNDERMINED BY GROWING PUBLIC OPPOSITION, CIVIL DISORDER AND POSSIBLY EVEN SOME FORM OF MILITARY TAKEOVER. IT IS VIRTUALLY CERTAIN, IN OUR VIEW, THAT ANY SUCCESSOR REGIME WILL BE LESS NOT MORE ACCOMMODATING IN SEEKING SETTLEMENT WITH ISRAEL. FURTHERMORE, CLOSE IDENTIFICATION BETWEEN SADAT AND U.S. MAKES IT HIGHLY PROBABLE THAT DISAPPEARANCE OF SADAT WOULD ADVERSELY AFFECT U.S. ECONOMIC AND POLITICAL INTERESTS IN MUCH OF ARAB WORLD. MODERATES LIKE SAUDIS WOULD, FOR EXAMPLE, BEGIN TO FEEL POLITICALLY INCAPACITATED IF REGION MOVING TOWARD NEW ARAB-ISRAELI WAR OR RADICALISM.

13. GIVEN LIKELY ALTERNATIVE LEADERSHIP IN EGYPT AND AREA-WIDE REPERCUSSIONS OF SADAT'S FAILURE, WE BELIEVE U.S. SHOULD ACT URGENTLY TO SEEK ADDITIONAL MEANS OF STRENGTHENING SADAT'S POSITIONS. SOME ILLUSTRATIVE MEANS OF DOING SO ARE SET FORTH BELOW:

A. PEACE PROCESS. SOME EARLY TANGIBLE PROGRESS ON PEACE

FRONT IS MOST IMMEDIATE AND EFFECTIVE WAY BY WHICH U.S. CAN BOLSTER SADAT, AT LEAST FOR A TIME, AND RESTORE SOME MEASURE OF HIS CREDIBILITY.

B. AID PROGRAM. MORE THOUGHT MUST BE GIVEN TO FIND WAYS TO USE A.I.D. FUNDS IN A POLITICALLY SUPPORTIVE WAY WITHIN NEXT TWELVE MONTHS. WHILE PL 480 AND CIP HAVE BEEN HELPFUL IN KEEPING PRICES DOWN AND PROVIDING NEEDED INTERMEDIATE GOODS, A.I.D. PROGRAM HAS NOT HAD SIGNIFICANT POLITICAL IMPACT OR DEMONSTRATED EXTENT OF U.S. SUPPORT FOR SADAT TO AVERAGE EGYPTIAN. DEPARTMENT RESPONSE TO HUMPHREY AMENDMENT PROVIDES EXCELLENT OPPORTUNITY TO FIND IMAGINATIVE NEW WAYS TO DO THIS.

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C. HIGH LEVEL STATEMENTNS. WE SHOULD AVOID GIVING IMPRESSION OF TAKING SADAT FOR GRANTED. REGULAR HIGH-LEVEL AMERICAN STATEMENTS OF SUPPORT FOR SADAT'S EFFORTS AND KEY ROLE OF EGYPT IN PEACE PROCESS ARE NEEDED AS RECONFIRMATION OF U.S. POLICY. IT IS STILL TRUE THAT ARABS CAN NEITHER MAKE WAR NOR PEACE WITH ISRAEL WITHOUT EGYPT.

D. SUPPORT FOR MILITARY. WE MUST FIND WAYS AND MEANS TO PROVIDE MORE U.S. MILITARY EQUIPMENT TO EGYPTIAN MILITARY (NOT JUST TOKEN, NON-LETHAL EQUIPMENT) IN ORDER TO STRENGTHEN MILITARY'S SUPPORT FOR SADAT AND CREDIBILITY OF HIS STRATEGY. THIS CAN BE DONE WITHOUT MATERIALLY AFFECTING THE BALANCE OF OF POWER

E. FINALLY, WE SHOULD IMPRESS UPON ISRAELIS THAT ONE OF BEST ASSURANCES FOR THEIR LONG-TERM SECURITY--WITH OR WITHOUT IMMEDIATE SETTLEMENT--IS MAJOR U.S. PRESENCE AND INFLUENCE IN KEY ARAB STATES. SADAT, AS A MODERATE ARAB LEADER, HAS PROVIDED OPPORTUNITY FOR U.S. TO PLAY SUCH A ROLE IN EGYPT AND IS SUPPORTIVE OF OUR ROLE ELSEWHERE IN ARAB WORLD. ISRAELIS SHOULD BE URGED TO UNDERSTAND THIS AND AVOID ACTIONS WHICH COMPLICATE SADAT'S PROBLEMS OR EMBARRASS HIS PUBLIC AND ARAB STANDING.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, POLITICAL STABILITY, PUBLIC ATTITUDES
Control Number: n/a
Copy: SINGLE
Sent Date: 12-Sep-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977STATE218464
Document Source: CORE
Document Unique ID: 00
Drafter: BJSHARP
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770330-1128
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
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Legacy Key: link1977/newtext/t19770972/aaaacjgy.tel
Line Count: 808
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 355a0548-c288-dd11-92da-001cc4696bcc
Office: ORIGIN SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 15
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: 76 CAIRO 11784, 77 STATE 201818, 77 CAIRO 14260
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27-Jan-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1303363
Secure: OPEN
Status: NATIVE
Subject: ASSESSMENT OF DISCONTENT WITH SADAT'S PERFORMANCE AND POLICIES
TAGS: PINT, PINS, EG, US, (SADA, ANWAR)
To: USUN NEW YORK
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/355a0548-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009